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PARIS PLEASE PASS USOEC  
STATE PLEASE PASS TO USTR FOR CUTLER AND BEEMAN  
STATE PLEASE PASS TO NSC FOR KURT TONG  
STATE PLEASE PASS TO USDOC FOR MELCHER

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SUBJECT: The Japan Economic Scope - Economic News At-A-Glance.

Sensitive but unclassified. Please protect accordingly.

11. (U) Summary. The Japan Economic Scope (JES) is a weekly e-newsletter produced by Embassy Tokyo's ECON section in collaboration with other sections and constituent Posts. It provides a brief overview of recent economic developments, insights gleaned from contacts, summaries of the latest cables and a list of upcoming visitors. This cable contains the September 22, 2006 JES, minus the attachments that accompany many of the individual stories in the e-mail version. To be added to the mailing list, please email ProgarJ@state.gov. End Summary.

It's Official! Abe Wins!  
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12. (SBU) Shinzo Abe won a decisive victory in the ruling Liberal Democratic Party (LDP) election on September 20, defeating Foreign Minister Taro Aso and Finance Minister Sadakazu Tanigaki in a contest that was never really close. He became the 21st LDP president immediately upon the resignation of the current president, Prime Minister Junichiro Koizumi, and other party executives later in the day. He also is the youngest president and the first born after World War II. Abe won 66.1 percent of the vote, less than the 70 percent he had hoped to garner, while Aso came in second with 19.4 percent and Tanigaki was third with 14.5 percent, both having done better than expected.

13. (SBU) Next comes the appointments of the three LDP executive positions: Secretary General, Chairman of the Policy Research Council (PARC) and Chairman of the General Council, which will be announced on Monday, September 25. Speculation is rife but leading contenders for Secretary General include Hidenao Nakagawa or Taro Aso. Hidenao Nakagawa has also been suggested for PARC chairman. Fumio Kyuma, Fukushima Nukaga and Yuya Niwa are on various lists for General Council Chairman and Hakuo Yanagisawa and Bunmei Ibuki

have also been mentioned as possibilities for any of these three jobs.

14. (SBU) Abe has said he would announce Cabinet Ministers on Tuesday, September 26. Again, the gossip mills are working overtime but some names have appeared in more than one place. Below is a list of positions and possible contenders gathered from a number of sources:

--Chief Cabinet Secretary - Nobuteru Ishihara, Nobutaka Machimura, Kaoru Yosano, Yasuhisa Shiozaki

--Foreign Ministry - Shoichi Nakagawa, Nobutaka Machimura, Taro Aso, Sadayuki Hayashi (former Ambassador to the UK)

--Finance Ministry - Kaoru Yosano, Hakuo Yanagisawa, Yasuhisa Shiozaki, Toshihiro Nikai, Toshiaki Amari

--MEXT - Nobutaka Machimura, Shoichi Nakagawa, Sanae Takaichi

--MIC - Fumio Kyuma

--METI - Akira Amari, Yuji Yamamoto, Tsutomu Takebe

--Justice Ministry - Yuji Yamamoto, Shoichi Nakagawa

--Defense Agency - Fukushima Nukaga, Sanae Takaichi, Fumio Kyuma

--State Min for Financial Services - Kaoru Yosano,

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Hakuo Yanagisawa, Yasuhisa Shiozaki, Toshihiro Nikai, Toshiaki Amari

--State Min for Econ/Fiscal Policy - Kaoru Yosano, Hakuo Yanagisawa, Yasuhisa Shiozaki, Toshihiro Nikai, Toshiaki Amari

--State Min for Abduction Issue - Kyoko Nakayama

CPRR Chairman Resigns, Rumors on Replacement

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15. (U) The Chairman of the Committee for the Promotion of Regulatory Reform (CPRR), Yoshihiko Miyauchi, resigned his position September 21 in a move we anticipated based on comments Miyauchi made to EMIN during a recent courtesy call (see Tokyo 05180). Miyauchi, who was chairman of the Committee for nearly ten years, is widely credited with steadfastly driving the regulatory reform process forward. Newspaper reports speculate he will be replaced by CPRR board member Takao Kusakari, the Chairman of Japan Yusen Shipping company. A Keio University graduate and former rugby player, Kusakari is also seen as a strong proponent of regulatory reform and has championed changes in medical services and education. A contact in the CPRR secretariat told us that none of the staffers had anticipated Miyauchi's resignation before the end of his term (March 2007) and that they had only learned of his departure via the internet.

Takenaka Resignation Unsurprising

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16. (SBU) On September 15 Heizo Takenaka, well known economist, reluctant politician, and symbol of Prime Minister Koizumi's reform agenda, announced his plan to give up his Diet seat on September 26. Faced with the imminent retirement of Koizumi, his biggest supporter, Takenaka was not expected to remain in the Cabinet and appears to have decided that a Diet seat

was not sufficient incentive to stay, especially because politicians he had clashed with over banking reform may be part of the new administration. For further information, please see Tokyo 5450.

#### Confusion Over Revoked Sakhalin Permit

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17. (SBU) The media has reported that Russian authorities have cancelled a key environmental permit for Sakhalin-2, the \$20 billion project on the Russian island of Sakhalin led by Royal Dutch Shell. Subsequent reports have sought to clarify this action. Sakhalin Energy CEO Ian Craig was quoted as saying that the Russian General Prosecutor's Office believes an order involving Sakhalin-2 Phase 2 had been issued illegally but that a new order would be issued and validated, presumably replacing the invalid order. Craig went on to say that none of this involves Sakhalin-2 Phase 1, which is already producing over 70,000 barrels of oil per day for about half the year. This amount should more than double during Phase 2, which also includes the construction and complete enclosure of the world's biggest liquefied natural gas (LNG) plant. Japan's Mitsubishi Corp. and Mitsui & Co. won 20 percent and 25 percent of the project respectively. Japanese utilities have already contracted to buy a combined total of about 4.5 million tons of LNG from the project, which expects to produce around 9.6 million tons of LNG a year beginning in 2008.

#### Shiozaki Supports Regional Architecture

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18. (SBU) Yasuhisa Shiozaki, Senior Vice Minister for  
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Foreign Affairs and possible member of the next Cabinet, last week spoke with EMIN about regional architecture and indicated his strong support for continued discussion with the US on how to strengthen and better utilize the various frameworks available in East Asia without excluding the US. He expressed his hope for improved relations with China under the new administration and was also eager to identify US officials who support an FTA with Japan. For further information please see the attached memorandum.

#### Japan-Philippines Economic Partnership Agreement Signed but Other FTAs Going Nowhere Fast

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19. (SBU) Prime Minister Koizumi and Philippine President Arroyo signed the Japan-Philippines "Economic Partnership Agreement" (EPA, in effect a free trade agreement) September 9 on the margin of the Asia-Europe Summit Meeting (ASEM) in Helsinki, Finland. The final document largely reflects the basic agreement reached between the two countries at the end of 2004, according to officials of the Japanese Foreign Ministry. The reasons behind the delay in signing the agreement are recounted in telegram Tokyo 5329 (classified). The Japanese Government will submit the agreement to the Diet for approval during the upcoming extraordinary session due to convene at the end of September. It is expected, however, that ratification by the Philippine Congress may take somewhat longer. The full text of the signed agreement is available on the Japanese Ministry of Foreign Affairs website at the address:  
<http://www.mofa.go.jp/region/asia-paci/philippine/epa0609/index.html>

110. (SBU) Telegram Tokyo 5329 (classified) also conveys the views of a Foreign Ministry official

involved in Japan's ongoing free trade agreement negotiations on the dim prospects for various regional and bilateral agreements, including Japan-ASEAN, Japan-Australia, and Japan-Thailand.

#### MOF Rejects Marlboro Price Increase

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¶11. (SBU) Philip Morris representatives told us that MOF rejected its pro forma price increase request on Marlboro and other PM brand cigarettes saying that such an increase would harm Japanese consumers. MOF and Philip Morris established this pro forma price approval system under a USTR 301 agreement in 1986 to address concerns that American manufacturers would dump cheap cigarettes on the Japanese market. This is the first time the company's price-setting request has been denied. Philip Morris had previously enjoyed steady market growth, climbing from 1 percent market share in 1986 to 25 percent share today. However, company representatives stated the 30 yen per pack proposed increase is necessary to achieve revenue targets in the face of 3-4 percent volume declines. They speculated that MOF wants to maintain some control over cigarette pricing because, should manufacturers, and particularly Japan Tobacco, have the freedom to raise prices, cigarette smoking would decrease and tobacco leaf farmers would suffer. FinAtt is engaging MOF to learn more.

#### Alternative Energy Sources Not In the Mix To Meet Increasing Power Demands in Central Japan

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¶12. (SBU) Based on the continuing expansion of regional industry, Chubu Electric (Chuden), the power company for five Central Japan prefectures centered on Nagoya, projects electricity demand to grow steadily in the one to three percent range per annum over the

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next decade, Vice President Takuo Yamauchi told Nagoya PO on September 21. Although alternative energy sources receive a lot of media attention and a fairly substantial amount of Chuden research, according to Yamauchi, sources like solar and wind account for a nearly negligible proportion of Chuden's generation and will likely stay so for the foreseeable future. Currently, about 70 percent of Chuden's generation comes from fossil fuels, 20 percent is nuclear, and 10 percent is hydroelectric.

¶13. (SBU) Over the next one to two decades, Yamauchi anticipates the only significant change will come from two new nuclear plants under development by the Japan Atomic Power Company (partially owned by Chuden) in Tsuruga, Fukui prefecture, and a relatively minor bump

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from a large dam currently in the final stages of opening in Gifu. If the nuclear plants stay on schedule (potentially a big if, considering political concerns and the fact that their opening would likely necessitate the decommissioning of two other plants), and accounting for growth in demand, by around the year 2020, Chuden's production breakdown is likely to be about 59 percent fossil fuels, 30 percent nuclear, and 11 percent hydroelectric.

#### BOJ Policy Board Member Sends Mixed Messages

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¶14. (SBU) Atsushi Mizuno, member of the Bank of Japan (BOJ) policy board, spoke at a Jiji Press financial forum on September 20 about the recent world financial and economic situation with emphasis on the United

States and Japan. Most notably, Mizuno missed an opportunity during the question and answer session to emphasize the BOJ's independence in light of the election of new Liberal Democratic Party (LDP) leader Shinzo Abe on the same day. Mizuno instead underscored the importance of dialogue on economic matters between the new administration and the Central bank. He also sent a mixed message about the transparency of BOJ policy, at one point stressing its importance and at another, warning that sometimes transparency could be a bad thing because it was unable to create a world without uncertainty.

Sapporo CEO Cites American Influence in Receiving UN Refugee Assistance Award  
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¶15. (U) The UN Refugee Agency (UNHCR) presented Dr. Akio Kanai, CEO of Hokkaido-based Fuji Optical, with the 2006 Nansen Refugee Award. The UNHCR recognized Dr. Kanai for his work over the past two decades to provide free eye examinations and eyeglasses to more than 100,000 refugees worldwide. This is the first time that a Japanese citizen has received this prestigious award.

¶16. (U) Dr. Kanai received his doctorate degree in optometry from Southern California College of Optometry in 1972. In a Asahi Shimbun interview on why he is dedicated to helping refugees, Dr. Kanai explains that he learned about volunteerism, hospitality and kindness towards others while living with his American host family during his PhD studies. It was also a fellow American optometrist friend who introduced him to his first volunteer work in 1972, offering free eye examinations on a Native American reservation.

Co-op Working Group Continues Deliberations on Legal Revisions  
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¶17. (SBU) The Ministry of Health, Labor, and Welfare (MHLW) Working Group on co-operatives (kyosai)

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continues to work on revising MHLW's governing legislation. Attached is a summary of the group's latest discussions, including MHLW suggestions on changing co-operatives' geographic restrictions and insurance policyholder protection regulations, as well as transparency concerns.